No. 86-495-CFX
Status: GRANTED

Title: K Mart Corporation, Petitioner
v.
Cartier, Inc., et al.

Docketed:
September 26, 1986

Court: United States Court of Appeals for the District of Columbia Circuit

Vide:
86-624
86-625

Counsel for petitioner: Steele,Robert W.

Counsel for respondent: Solicitor General, Allen,William H., Lewin,Nathan

Entry	Date	Note	Proceedings and Orders
1	Sep 26 1986	G	Petition for writ of certiorari filed.
2	Oct 20 1986		Brief of respondent United States in opposition filed. VIDED.
4	Oct 22 1986		Order extending time to file response to petition until November 19, 1986.
5	Nov 19 1986		DISTRIBUTED. December 5, 1986
6	Nov 19 1986		REDISTRIBUTED. December 5, 1986
7	Nov 19 1986		Brief amicus curiae of American Free Trade Assn. filed. VIDED.
8	Nov 19 1986		Brief of respondents Coalition to Preserve Integrity of Amer. Trademarks, et in opposition filed. VIDED.
9	Nov 26 1986	X	Brief of respondent 47th Street Photo in opposition filed. VIDED.
10	Dec 8 1986		Petition GRANTED. The case is consolidated with 86-624 and 86-625, and a total of one hour is alloted for oral argument.
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12	Jan 8 1987		Order extending time to file brief of petitioner on the merits until February 21, 1987.
13	Feb 20 1987		Brief amicus curiae of Natl. Assn. of Catalog Showroom Merchandisers filed. VIDED.
14	Feb 20 1987		Brief amicus curiae of Progress Trading Co. filed. VIDED.
15	Feb 20 1987		Brief amicus curiae of National Mass Retailing Institute filed. VIDED.
16	Feb 20 1987		Joint appendix filed. VIDED.
17	Feb 20 1987		Brief of petitioner United States filed. VIDED.
18	Feb 20 1987		Brief amicus curiae of American Free Trade Assn. filed. VIDED.
19	Feb 20 1987		Brief amicus curiae of Consumers Union of U.S. filed. VIDED.
20	Feb 20 1987		Brief amicus curiae of Washington filed. VIDED.
22	Feb 20 1987		Brief of petitioner 47th Street Photo, Inc. filed. VIDED.
23	Feb 20 1987		Brief of petitioner K mart Corp. filed. VIDED.
21	Feb 21 1987		Brief amici curiae of Darby Dental Supply, et al. filed. VIDED.
24	Mar 4 1987		Record filed.
25	Mar 4 1987		Certified copy of original record and proceedings, 2 boxes, received.
27	Mar 6 1987		Application of respondents for leave to file a brief on the merits in excess of the page limitation filed
28	Mar 6 1987		(A-658), and order granting same by The Chief Justice on March 9, 1987. The brief may not exceed 60 pages.

No. 86-495-CFX

Entry	Date	Note	Proceedings and Orders
26	Mar 7 1987	G	Motion of the Solicitor General for divided argument filed.
30	Mar 12 1987		Order extending time to file brief of respondent on the merits until April 22, 1987.
31	Mar 23 1987		Motion of the Solicitor General for divided argument GRANTED.
33	Mar 31 1987		Order extending time to file brief of respondent on the merits until May 7, 1987.
34	May 7 1987		Lodgings received. (25 copies).
35	May 7 1987		Brief amicus curiae of United States Trademark Assn. filed. VIDED.
36	May 7 1987		Brief amicus curiae of Duracell, Inc. filed. VIDED.
37	May 7 1987		Brief amicus curiae of American Cyanamid Co., et al. filed. VIDED.
38	May 7 1987		Brief amicus curiae of Lever Brothers filed. VIDED.
39	May 7 1987		Brief amicus curiae of Cetus Corporation filed.
40	May 7 1987		Brief amicus curiae of American Intellectual Property Law filed. VIDED.
41	May 7 1987		Brief of respondents Cartier, Inc., et al. filed. VIDED.
42	May 7 1987		Brief amici curiae of Yamaha International Corp. et al. filed. VIDED.
43	May 7 1987		Brief amicus curiae of Motor Vehicle Mfgrs. Assn. of the U.S. filed. VIDED.
44	Jul 2 1987		CIRCULATED.
45	Jul 20 1987		SET FOR ARGUMENT. Tuesday, October 6, 1987. This case is consolidated with Nos. 86-624 & 625. (4th case)(1 hr)
46	Aug 12 1987	D	Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument filed.
47	Sep 21 1987		Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument DENIED.
48	Sep 22 1987	X	Reply brief of petitioner K mart Corp. filed. VIDED.
49	Sep 22 1987	X	Reply brief of petitioners United States filed. VIDED.
50	Sep 22 1987	X	Reply brief of petitioner 47th Street Photo, Inc. filed. VIDED.
51	Oct 6 1987		ARGUED.
52	Mar 7 1988		Brennan, J., delivered the opinion of the Court, in which White, Marshall, Blackmun, and Stevens, JJ., joined. Scalia, J., filed a dissenting opinion, in which Rehnquist, C.J., and O'Connor, J., joined. Kennedy, J., took no part in the consideration or decision of this case. THE COURT OF APPEALS CONCLUSION THAT THE DISTRICT COURT HAD JURISDICTION IS AFFIRMED. THE CASE IS RESTORED TO THE CALENDAR FOR REARGUMENT ON THE MERITS.
53	Mar 10 1988	D	Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument filed.

No. 86-495-CFX

Entry	Date	Note	Proceedings and Orders
55	Mar 11 1988		SET FOR REARGUMENT, Tuesday, April 26, 1988. (2nd case). This case is consolidated with 86-624 and 86-625. 1 hour.
54	Mar 21 1988		Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument DENIED.
56	Apr 4 1988	G	Motion of respondents for leave to file a supplemental brief on reargument filed.
57	Apr 12 1988	D	Motion of American Free Trade Association for leave to file a supplemental brief as amicus curiae on reargument filed.
58	Apr 13 1988	G	Motion of the Solicitor General for leave to file a supplemental brief on reargument filed.
59	Apr 13 1988	G	Motion of petitioner K Mart Corporation for leave to file a supplemental brief on reargument filed.
60	Apr 13 1988	G	Motion of petitioner 47th Street Photo, Inc. for leave to file a supplemental brief on reargument filed.
61	Apr 18 1988		Motion of respondents for leave to file a supplemental brief on reargument GRANTED.
62	Apr 18 1988		Motion of American Free Trade Association for leave to file a supplemental brief as amicus curiae on reargument DENIED.
63	Apr 25 1988		Motion of the Solicitor General for leave to file a supplemental brief on reargument GRANTED.
64	Apr 25 1988		Motion of petitioner K Mart Corporation for leave to file a supplemental brief on reargument GRANTED.
65	Apr 25 1988		Motion of petitioner 47th Street Photo, Inc. for leave to file a supplemental brief on reargument GRANTED.
66	Apr 26 1988		REARGUED.

MOTION FILED

APR 4 1988

Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

UNITED STATES OF AMERICA, *et al.*,
K MART CORPORATION and 47TH STREET PHOTO,
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
Respondents.

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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MOTION OF RESPONDENTS FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR RESPONDENTS ON REARGUMENT

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April 4, 1988

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MOTION OF RESPONDENTS FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

Respondents move for leave to file, in advance of the reargument of this case on the merits, the supplemental brief that accompanies this motion. The brief comments upon intervening decisions of this Court as they bear on the issue of statutory construction that the case poses and on certain of the arguments advanced in petitioners' reply briefs.

Respectfully submitted,

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April 4, 1988

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UNITED STATES OF AMERICA, *et al.*,
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SUPPLEMENTAL BRIEF FOR RESPONDENTS ON REARGUMENT

INTRODUCTION AND SUMMARY

The Customs Service's interpretation of Section 526 of the Tariff Act of 1930 falls outside the *Chevron* test for deference to an agency's interpretation of its statute as that test has been applied in two opinions of this term, *ETSI Pipeline Project* v. *Missouri*, Nos. 86-939 and 86-941, decided Feb. 23, 1988, and *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987. There is no more reason in this case than there was in *Gwaltney of Smithfield* v. *Chesapeake Bay Foundation*, No. 86-473, decided Dec. 1, 1987, slip op. at

6, for disregarding the carefully considered terms of a statute, in this case Section 526, which was debated, amended on the floor and in conference, and enacted in 1922, and considered in committee, debated, and again considered in conference and reenacted in 1930. No overriding trademark principle of "first sale" or "exhaustion" justifies the Customs Service's disregard for the terms of the statute in its regulations interpreting Section 526; the record shows that the distinction the regulations draw between those exclusive United States distributors of foreign products that are entitled to the protection of Section 526 under the Customs Service regulations and those that are not is a purely formal distinction without grounding in the policy considerations urged by petitioners. Finally, the Customs Service has been both belated and inconsistent in drawing the distinction that it now draws, in contrast to the contemporaneous and consistent NLRB interpretation of its statute held entitled to judicial deference in *United Food Workers*.

ARGUMENT

1. Two unanimous decisions of this term illustrate the application of the *Chevron*[1] test for deference to an agency's construction of a statute it administers. The Customs Service's interpretation of Section 526 of the Tariff Act of 1930 fails when the test is applied to it. It fails because congressional intent is expressed as clearly in Section 526 as it was in the provisions of the Flood Control Act of 1944 that governed the decision in *ETSI Pipeline Project* v. *Missouri*, Nos. 86-939 and 86-941, decided Feb. 23, 1988, and that clear expression is " 'the end of the matter,' " foreclosing the agency's contrary view. Slip op. at 21. And, if the Customs Service interpretation is not thought thus to fail at the outset, it still fails the test because, unlike the contemporaneous,

[1] Chevron U.S.A. Inc. v. Natural Resources Defense Council, 467 U.S. 837, 842-44 (1984).

consistent and long-standing regulations of the Labor Board at issue in *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987, slip op. at 10-12, the belated and inconsistent Customs Service regulations interpreting Section 526 do not embody a permissible, rational interpretation of the statute.

It remains true that no way has been found to rationalize the words of Section 526 with the agency's interpretation of them—short of inserting by main force words into the statute that do not belong in it (*see* Gov't Reply Br. 15 n.14). 47th Street Photo attempted a rationalization in its opening brief. It said that a trademark is not "owned," within the meaning of Section 526, by a "corporation . . . created or organized within . . . the United States" and is not registered by a person "domiciled in the United States" when the owner and registrant is a corporation affiliated with a foreign manufacturer. (47th St. Photo Br. 19-22.)

That was not persuasive even as to the foreign manufacturers and their subsidiary distributors incorporated in the United States since Congress could have written a more stringent definition of corporate citizenship (as it has in other statutes) but chose not to do so. (COPIAT Br. 21-22.) It was not even plausible as to an American manufacturer with a plant abroad, as COPIAT and amici American manufacturers pointed out. (*See id.* at 21.) 47th Street Photo therefore made a new attempt at rationalization in its reply brief. The new effort is a hopeless failure. To fit the case of the American manufacturer, 47th Street Photo urges that merchandise is not "of foreign manufacture," as required by Section 526, if it is manufactured abroad by an American company. (47th St. Photo Reply Br. 7-8.) The argument puts an unbearable strain on the statutory language. And, if that were not enough to dispose of it, one need only recall the manifested congressional understanding of Section 526 when it was repealed and reenacted in

1930. The Senate at that time debated whether to omit from the statute as originally enacted in 1922 the provision permitting merchandise of foreign manufacture bearing a trademark identical to a United States trademark to enter the country if the United States trademark owner's consent was given. It voted to delete the consent provision precisely in order to prevent United States manufacturers from building plants abroad. (COPIAT Br. 32-36.) The necessary premise of the Senate's debate and vote (and the House's rejection of the Senate's action) was that merchandise produced in American owned plants abroad was "merchandise of foreign manufacture."

The least that one can fairly expect of a party that urges legislative history as a reason for not giving statutory words their natural meaning is that the party tell us how the words can be made to convey the meaning for which it contends. Legislative history is supposed to illumine, not substitute. That minimal expectation is not satisfied by petitioners in this case.

2. A recurring theme of petitioners' briefs and reply briefs is that Section 526, as it was originally enacted in 1922, was "hastily drafted." (*E.g.*, Gov't Reply Br. 7; 47th St. Photo Reply Br. 8-10.) It was not. In *Gwaltney of Smithfield* v. *Chesapeake Bay Foundation*, No. 86-473, decided Dec. 1, 1987, the argument was made that the use of the phrase whose meaning was in issue was "a 'careless accident,' the result of a 'debatable lapse of syntactical precision.'" Slip op. at 6. The Court responded that the wording of the phrase "could not have escaped Congress' attention." *Id.* And so it is here. Nothing in the—actually quite lengthy—consideration of Section 526 justifies ignoring the terms in which the statute is cast.

Section 526 was debated in the Senate on August 19, 1922. 62 Cong. Rec. 11,602 (1922). Even by the ac-

count of Senator Moses, an opponent who characterized it as a "midnight amendment[]," it had originally been inserted into the bill more than two months earlier, before June 6, because he said it had been removed from the bill on that date. *Id.* According to Senator Sutherland, a proponent, the provisions of Section 526 had been recommended by the American Bar Association after careful consideration, and all of those provisions could be found in a report of the cognizant ABA section, *id.* at 11,603, suggesting an even longer period of gestation. After the debate on August 19, the Conference Committee made its report, which reflects further consideration of the section, nearly a month later, on September 14. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 1 (1922). And that is to say nothing of the serious and prolonged consideration that Section 526 received before it was reenacted in 1930. (COPIAT Br. 32-36.)

Section 526 was amended on the Senate floor and again in conference in 1922 in response to comments offered during the Senate debate. (*Id.* at 29-31.) That is no indication of hasty drafting. It is just an illustration of the frustrating knowledge that belongs to anyone who has done any legislative drafting—that one never sees all the problems, however long a time one has to consider them.

3. A late-blooming idea of petitioners is that the Customs Service's interpretation of Section 526 accords with and may even be dictated by what the Government calls "a basic distinction that flows through all of trademark law." (Gov't Reply Br. 5; *see also* 47th St. Photo Reply Br. 13-14.) The distinction, in the Government's words, is that "a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce." The Government's principle of trade-

mark jurisprudence is derived from two decisions of this Court. (Gov't Reply Br. 5 & n.5.) These cases concerned the proper scope of a trademark owner's *remedy* for what was found explicitly in one case, *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125, 126 (1947), and implicitly in the other, *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359 (1924), to be trademark infringement resulting from the resale of goods the trademark owner put into commerce. It cannot be said on this authority that the trademark owner has *no* power to limit resale. The remedies for infringement approved by this Court, while they allowed purveyors of reconditioned spark plugs in the one case and of repackaged face powder and perfume in the other to use the original trademarks of the goods to state truthfully their source, required the purveyors, to avoid confusion and deception, to make clear that the goods were reconditioned or repackaged. 331 U.S. at 127-28 & n.3; 264 U.S. at 367, 368-69.

The Government and 47th Street Photo also rely on a page of a treatise on trademarks.[2] But at a different page in another section of the same treatise the author says that, because of the territoriality principle of trademark law and such factors as the differing nature of identically trademarked goods intended for different markets, one cannot simply "translate . . . into the international context" the domestic rule that the resale of a trademark owner's goods in their original form typically does not infringe the owner's mark.[3]

In fact, Section 526 as written comports with and furthers the two basic aims of the legal protection of trademarks: the prevention of consumer confusion and deception and the safeguarding of the trademark owner's

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[2] 3A Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.13, at 62 (Altman 4th ed. 1983 & Supp. 1987). (Gov't Reply Br. 5 n.5; 47th St. Photo Reply Br. 13.)

[3] *See id.* § 21.17, at 74.

investment in the goodwill of the owner's product.[4] If enforced in accordance with its terms, Section 526 would prevent consumer confusion and deception because (as a number of the amici briefs attest) gray-market goods intended for markets other than the United States are often not the same goods that United States consumers associate with the familiar trademark on them. And the sale of gray-market goods erodes the trademark owner's investment in goodwill because the gray-market seller takes a free ride on the expenditures for advertising, promotion, and pre-sale and post-sale services that produce the goodwill and promote the vigorous interbrand competition that yields for consumers an abundance of different goods at competitive prices.[5]

4. Petitioners assert that giving Section 526 its natural meaning exalts form over substance. They point out that the statute demands ownership of the protected United States trademark by a United States citizen or a United States corporation. Then they say that Congress could not have intended that the creation by a foreign producer of what they like to refer to as a United States corporate shell to own the United States trademark should make a difference in the applicability of the statute. (*E.g.*, 47th St. Photo Reply Br. 2.) The

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[4] *See* H.R. Rep. No. 219, 79th Cong., 1st Sess. 2 (1945) (the House Committee report on the bill that became the Lanham Trademark Act of 1946).

[5] United States trademark owners, economists, and others testified in factual and theoretical detail to these anti-consumer effects of the gray market in *Hearings on Gray Market Imports Before the International Trade Subcomm. of the Senate Finance Comm.*, 99th Cong., 2d Sess. 29 (1986). *See id.* at 8-10, 16-23 (testimony of Robert H. Miller); 131-28 (testimony of Steven P. Kersner); 188-97 (testimony of Peter Thompson); 314-24 (statement of Christopher C. DeMuth). The hearings were held in 1986 to consider a bill, S. 2614, that essentially would have written the restrictive Customs Service regulations into Section 526. The full Senate Finance Committee rejected a similar measure on May 7, 1987, as part of its consideration of the current international trade bill.

truth is rather, on the record that was made in support of COPIAT's motion for summary judgment in the district court, that it is the Customs Service that acts on the basis of purely formal differences.

There may be some foreign producers that have mere corporate shells as their United States distributors, but they are not among the COPIAT members whose officials gave statements in support of the motion for summary judgment.[6] For example, the Michelin Tire Corporation, a New York corporation affiliated with the French tire company, operates five plants in the United States, and most of the tires it distributes in this country are manufactured in these and other North American plants.[7]

Moreover, two COPIAT members have fallen victim, in an especially vivid way, to the Customs Service's regard for the form of corporate relationships. E. Leitz, Inc., a Delaware corporation and the owner of the United States trademark for Leica cameras and binoculars, and Nikon, Inc., a New York corporation and the owner of the United States trademark for Nikon cameras, are both substantial concerns, with forces of salespeople and technicians, service centers, and large inventories. Before 1981 Leitz was owned by United States citizens and was the exclusive distributor for Leica products in the United States. Similarly, before 1981 Nikon was publicly owned and was the exclusive distributor of Nikon goods in the United States. Both were protected by the Customs Service pursuant to Section 526 against the unconsented importation of goods bearing their trademarks. In 1981 Leitz was acquired by the German manufacturer of Leica cameras and binoculars and Nikon by the Japanese manufacturer of Nikon photographic goods. There was no change in the way either did busi-

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[6] These statements made under penalty of perjury are described in our main brief, p. 3 n.2.

[7] Statement of Pierre Valentin ¶¶ 2, 3.

ness. But each immediately began to suffer the inroads of gray-market products bearing its trademark because, under the Customs Service regulations, the formal change in corporate relationships made it ineligible for the protection afforded by Section 526.[8]

There is no good policy reason for this difference in treatment based on the formalities of corporate relationships. The role of Leitz and Nikon in the "preferred distribution arrangements" of "multinational enterprise[s]" (*cf.* Gov't Reply Br. 1-2) did not change when their ownership changed. And if, as the private petitioners proclaim, intrabrand competition is desirable as a means of lowering prices to consumers, it is just as desirable against an exclusive distributor that is independently owned as it is against one that is a subsidiary. Furthermore, if, as those petitioners suggest, there is some antitrust problem with an exclusive distributor that is a subsidiary, surely that problem is of greater magnitude if the exclusive distributor is an independent party to the exclusive dealing arrangement, and there is the antitrust element of agreement. *Cf. Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752 (1984).

In fact, COPIAT believes that there is no antitrust problem regardless of the relationship of the parties to the exclusive dealing arrangement, and that this is so because such arrangements foster vigorous interbrand competition, which is the true source of consumer benefits. *Cf. Continental T.V.* v. *GTE Sylvania*, 433 U.S. 36 (1977). Our point here is that the Customs Service's restrictions on the enforcement of Section 526 do not have, even on petitioners' premises, any policy content.

5. We have described the Customs Service regulations that narrow the apparently intended scope of Section 526 as "belated" and "inconsistent." (P. 3, *supra.*) That is a factual, not an argumentative, description. The only arguable issue is how belated and how inconsistent.

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[8] Statements of Aaron Altman ¶¶ 2, 3, 4, 9; Jack M. Abrams ¶¶ 2, 3, 4, 12, 13.

Regulations were issued by the Customs Service contemporaneously with the enactment of Section 526 in 1922 and its reenactment in 1930. Those regulations of 1923 and 1931, written when, presumably, Customs Service officials were most closely attuned to what Congress really intended, did not suggest that Section 526 meant less than it said. (COPIAT Br. 41-42.) They gave no hint of the restrictive regulations of 1972. Petitioners assert that the first restrictive regulation was issued in 1936, 14 years after Section 526 was first enacted. We say that regulation was an interpretation not of Section 526 but of a section of the Trademark Act.[9] Even on petitioners' view of it, the 1936 amendment to the regulations of 1931 was an incomplete forerunner of the 1972 regulations. At the most that amendment withdrew the protection of Section 526 if the foreign trademark and the United States trademark were "owned by the same person, partnership, association, or corporation." (COPIAT Br. 42.) On its face, the amended regulation did not touch the petitioners' paradigm gray-market case of a foreign producer with a distributor/subsidiary incorporated in the United States. There is a suggestion in petitioners' papers that 1936 was a primitive time when such subtleties as parent and subsidiary and common ownership or control were not understood so that the reference to the "same . . . corporation" has to be taken broadly as comprehending different but related corporations. Nonsense. This was the time of New Deal legislation such as the Public Utility Holding Company Act, which lists every conceivable kind of corporate relationship to ensure that no lawyer's manipulation of corporate forms escaped the grasp of the statute. Pub. L. No. 333 (ch. 687) §§ 2(a)(7)-(10), 49 Stat. 803, 806-08 (1935);

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[9] From its wording and the citation given to support it, it appears that the 1936 amendment related only to what is now Section 42 of the Lanham Act, and Congress was informed in 1944 that the amendment was so limited. (*See* COPIAT Br. 42-44.)

see also Glass-Steagall Act, Pub. L. No. 66 (ch. 89) § 2(b), 48 Stat. 162 (1933).

In *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987, the Court said that, in deciding what deference is owing to an agency's interpretation of its statute, "[w]e . . . consider the consistency with which an agency interpretation has been applied and whether the interpretation was contemporaneous with the enactment of the statute being construed." Slip op. at 10 n.20. In contrast with the Customs Service regulations at issue here, in that case the NLRB had adopted its interpretation of the statute in regulations that were contemporaneous with the enactment of the Taft-Hartley Act in 1947.

After 1936, things only get worse for petitioners' attempt to make out a case of long-standing, consistent administrative interpretation. In 1953, the regulation was amended to cover ownership by a "related company" as well as by the same company, but at the same time Section 526 was unmistakably deleted from the citation of authority for the amended regulation. (COPIAT Br. 44.) And during the 1950s Section 526 was being enforced against at least some gray-market French perfume that was manufactured by a French subsidiary of the American distributor and trademark owner.[10] Furthermore, the Solicitor General represented to this Court that the Customs Service thought itself obliged to enforce Section 526 as it was written against such gray-market perfume. (COPIAT Br. 45-46.) Finally, after the "re-

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[10] United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958). One of the *Guerlain* defendants was Parfums Corday, Inc., a New York corporation and the United States distributor of perfumes made in France by Parfumerie Internationale Corday, a French corporation. The United States Corday company owned 750 of the 800 shares of the French company, and 30 more shares were owned by the individual who owned the United States company and members of his family. 155 F. Supp. at 92-93.

lated company" restriction had been deleted in 1959 (and, at the same time, Section 526 had been reintroduced as authority for the less restrictive "same company" regulation),[11] the present regulations were issued without explanation in 1972, and later repudiated in 1983 by the chief counsel of the Customs Service in an amicus brief. (COPIAT Br. 47-48.)

To understate the point, there is in the Customs Service regulations neither the contemporaneity nor the consistency that the Court found in the NLRB's regulations in the *United Food Workers* case.

CONCLUSION

This Court's intervening decisions add weight to the argument for affirming the judgment below, and nothing in petitioners' reply briefs justifies any other decision.

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[11] To be sure, "related company" as defined by the Lanham Act and incorporated in the Customs Service regulations went beyond cases of parent and subsidiary and common ownership or control. *See* T.D. 53,399 (1953) (J.A. 55, 56); Trademark Act of 1946, § 45, 15 U.S.C. § 1127. But it included such cases, and there is no logic to the position that, after the reference to a "related company" was deleted, the reference to "same company" was meant to comprehend parent-subsidiary and common ownership or control.

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Nos. 86-495, 86-624 and 86-625

IN THE

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October Term, 1987

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and THE UNITED STATES OF AMERICA,
Petitioners,

v.

CARTIER, INC., CHARLES OF THE RITZ GROUP, LTD., and COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS,
Respondents.

ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

MOTION OF AMICUS CURIAE FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF OF AMICUS CURIAE IN SUPPORT OF PETITIONERS ON REARGUMENT

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MOTION OF AMICUS CURIAE FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

The American Free Trade Association moves for leave to file, in advance of the reargument of this case on the merits, the supplemental amicus curiae brief that accompanies this motion. The brief comments on certain of the arguments advanced in Respondents' supplemental brief of April 4, 1988, and provides additional evidence of Congressional intent. Because of the shortness of time, the American Free Trade Association has not sought consent of the parties to the filing of this supplemental amicus curiae brief. The parties had previously consented formally to the filing of amicus briefs by the American Free Trade Association in support of

the Petitions for Certiorari and in support of Petitioners on the merits.

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April 12, 1988

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SUPPLEMENTAL BRIEF OF AMICUS CURIAE IN SUPPORT OF PETITIONERS ON REARGUMENT

INTRODUCTION AND SUMMARY

The American Free Trade Association respectfully submits this brief as amicus curiae in support of Petitioners. This brief supplements the Association's brief on the merits filed on February 20, 1987, which included a statement on its interest as amicus curiae and a statement of the case.[1] In the interest of brevity, these statements are not repeated here.

1. Since that amicus curiae brief was filed, the American Free Trade Association has increased its membership and now includes retailers as well as importers, distributors and wholesalers of parallel imports.

The principal purpose of this brief is to comment on certain of the arguments advanced in Respondents' supplemental brief filed on April 4, 1988, and to add a new perspective on the policy arguments already advanced.

In their supplemental brief, Respondents in effect ask the Court to allow them to set the resale price of their products in the United States after they have sold those products on the open market in other countries. In 1975, Congress faced the same policy issue in the context of domestic trade and concluded that resale price maintenance was bad for consumers. Respondents' "free rider" argument was specifically rejected. Respondents' arguments are no more valid now in the context of international trade than they were in 1975 in the context of domestic trade.

ARGUMENT

IN 1975 CONGRESS FACED THE KEY POLICY ISSUE INVOLVED IN THIS CASE AND CONCLUDED THAT RESALE PRICE MAINTENANCE, WHICH IS WHAT RESPONDENTS ARE SEEKING HERE, WAS NOT IN THE PUBLIC INTEREST

In their supplemental brief, Respondents are essentially asking the Court to allow them to set the resale price of their products in the United States after they have sold those products, presumably at a profit, on the open market in other countries. Respondents' policy argument for this price-fixing scheme is that competition from their own products, independently imported, "erodes the trademark owner's investment in goodwill because the gray-market seller takes a free ride on the expenditures for advertising, promotion, and pre-sale

and post-sale services that produce the goodwill . . . ."[2] (Respondents' Supplemental Br. 8-9) Respondents cite for this proposition the Report of the House Committee on the bill that became the Lanham Trademark Act of 1945. (The reference itself is entirely inappropriate, since the Committee was referring to competition from similar products made by others, not from products made by the trademark holder itself.)

In 1975, Congress faced the same policy issue, in the context of domestic trade, and rejected Respondents' "free-rider" argument explicitly. Earlier in this century a number of states had enacted so-called "fair trade" statutes requiring retailers to re-sell products at minimum prices fixed by the manufacturers, and statutory exemptions from Federal antitrust laws permitted this practice. Miller-Tydings Fair Trade Amendment, August 17, 1937, ch. 690, Title VIII, 50 Stat. 693; McGuire Act, July 14, 1952, ch. 745, §2, 66 Stat. 632. Price competition with respect to these products at the retail level was precluded.

After several decades of experience with such price-fixing, Congress repealed the antitrust exemptions, thereby effectively repealing the state laws. Consumer Goods Pricing Act of 1975, Pub. L. No. 94-145, 89 Stat. 801 (1975). The reason for repeal was that resale price maintenance was bad for consumers. As Senator Brooke

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2. Contrary to Respondents' implication (Respondents' Supplemental Br. 7), only genuine products are at issue here. In most instances, parallel imports are manufactured in the same plants as the "authorized" imports, and in all cases (by the very terms of the Customs regulation at issue here) the manufacturer has placed, or authorized the placement of, its trademark on them just as it has on the "authorized" imports. Obviously, if parallel imports were not equally satisfactory to American consumers, they would not sell in such large quantities and COPIAT would not be interested in outlawing them. Even if the products were different, nothing is more deceptive and confusing to consumers than to advertise and promote one's trademark worldwide as if the products were identical and then to produce them in different forms.

stated: "Fair trade is legalized price fixing by which the owner of a brand name or trademarked article determines the price fixed by the retail merchant." 121 Cong. Rec. 38049 (1975). And Representative Heinz said,

> Rather than insuring fair trade practices, however, the fair trade laws have stifled competition, encouraged price fixing, increased costs to the consumer, and have generally denied the public the benefits of competition at the retail level.

121 Cong. Rec. 23661 (1975).

Proponents of "fair trade" resale price maintenance made the same policy argument that COPIAT makes in its Supplemental Brief about the "free ride" the parallel import seller takes on the manufacturers' "good will investment" in their trademarks. Yet, in 1975, while approving repeal of "fair trade," the House Judiciary Committee (the successor to the very committee which Respondents cite) explicitly addressed the "good will investment" argument and rejected it:

> Another justification for "fair trade" laws advanced by the manufacturers is that it protects their "good will" investment in their trademarks — namely, their advertising budgets. It is contended that the manufacturer's investment in promotion and advertising represents an asset — the "market image" of the product — which would be destroyed if the price premium which was part of that "image" could be eliminated by intrabrand price competition at the retail level.
>
> Chairman Lewis Engman of the Federal Trade Commission responded to this argument in his testimony before the Subcommittee:
>
> > 'This argument reveals the anticompetitive essence of the fair trade laws. Simply put, the argument assumes an

> identity between cost and value and thereby begs the question of the competitive marketplace by denying the consumer the right to assign his own value to the intangible asset of trademark or image.'
>
> The Committee was of the view that manufacturers should not be able to insulate their advertising budgets from the effects of intrabrand competition in this fashion, and that the marketplace should be allowed to judge the value of a "brand image" without the restraints imposed by resale price maintenance.

H.R. Rep. No. 341, 94th Cong., 1st Sess. 5 (1975).

Respondents' arguments are no more valid now in the context of international trade than they were in 1975 in the context of domestic trade. In neither case should manufacturers be permitted to fix minimum resale prices on their products once they have sold them, presumably at a profit, on the open market. In neither case should the American consumer be deprived of the benefits of price competition.[3]

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3. United States independent importers, distributors, and retailers testified in factual and theoretical detail to the pro-consumer effects of parallel importation in *Hearings on Gray Market Imports Before the International Trade Subcomm. of the Senate Finance Comm. on S.490*, 99th Cong., 2nd Sess. (1986). *See id.* at 1-2 (statement of Senator William V. Roth, Jr.); 2-3 (statement of Senator John H. Chafee); 5-6 (statement of Senator Warren B. Rudman); 40-43 (statement of James C. Tuttle); 56-59 (statement of Stephen Kurzman); 85,93 (statement of Edward T. Borda); 116-119 (statement of Nathan Lewin). The hearings were held in 1986 to consider S.2614, a bill which in substance would have restated what amicus curiae believes Congress intended in the original enactment of Section 526. When a similar measure was offered as an amendment to the current international trade bill, H.R. 3, on May 7, 1987, a majority of the Senate Finance Committee rejected the amendment, as Respondent notes. (Respondents' Supplemental Brief, fn. 5.) However, Respondents fail to note that,

Indeed, it is the members of COPIAT themselves who have established the economic incentive for parallel imports by setting dual world prices, with higher prices for American consumers. It would be particularly anomalous as a matter of economic and public policy to allow companies which manufacture overseas to fix discriminatorily high prices on their products for resale to American consumers when the Congress has prohibited companies which manufacture in the United States from doing so.[4]

NOTES (*Continued*)

on a number of recent occasions, the Committee has explicitly stated its intent not to take any action with regard to parallel importation while the litigation challenging the Customs regulation, including this case, remains pending. *See, e.g.*, S. Rep. No. 470, 98th Cong., 2nd Sess. 7-8 (1984) (the Senate Finance Committee report on the bill authorizing appropriations for the Customs Service); S. Rep. No. 71, 100th Cong., 1st Sess. 130 (1987) and H.R. Rep. No. 40, 100th Cong., 1st Sess. 158 (1987) (the House Ways & Means and Senate Finance Committee reports on the trade bill, H.R. 3).

4. COPIAT also claims, that there are consumer deception problems with parallel imports (Respondents' Supplemental Br. 6-7). The staff of the Federal Trade Commission, the principal Federal consumer protection agency, disagrees. Their recent study of parallel imports concludes that there are no warranty or consumer deception problems with parallel imports, and, if there were any, there is ample existing authority at the Federal level to redress them. *Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service* (October 17, 1986), reprinted at 133 Cong. Rec. S5525 (1987). Moreover, states such as New York have enacted laws requiring prominent disclosure to consumers as to, among other things, warranty protection which accompanies parallel imports. *See, e.g.*, General Business Law §218-aa (McKinney's Supp. 1988).

CONCLUSION

Respondents are seeking to have the U.S. Government, through the Customs Service, now enforce in international trade a form of monopolistic price-fixing that has long been outlawed in domestic trade in this country.

Respectfully submitted,

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The federal petitioners move for leave to file, in advance of the reargument of this case on the merits, the supplemental brief that accompanies this motion. The brief responds to the supplemental brief filed by respondents on April 4, 1988.

Respectfully submitted.

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SUPPLEMENTAL BRIEF FOR THE FEDERAL PETITIONERS

The three new cases[1] that are the stated occasion for COPIAT's supplemental brief do not alter the controlling legal principles here; they simply apply familiar rules of

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[1] *ETSI Pipeline Project* v. *Missouri*, No. 86-939 (Feb. 23, 1988); *NLRB* v. *United Food & Commercial Workers Union, Local 23,*

statutory construction to particular—and easily distinguishable—facts. And COPIAT's surrebuttal adds nothing of substance to its previous arguments. The question in this case remains whether the Treasury Department has reasonably interpreted Section 526, 19 U.S.C. 1526, to protect a U.S. trademark owner against importation of goods bearing its trademark that were manufactured abroad by a stranger (even if the stranger has the right to use that mark in the foreign country), but not against importation of its own (or its affiliate's or licensee's) goods into the United States after it itself has sold them into foreign commerce. As we have previously explained (U.S. Br. 10-14; U.S. Reply Br. 2-6), the Treasury Department's interpretation is consistent with the statutory language. And unlike COPIAT's construction, the Treasury interpretation is consistent with the basic principles of trademark law, Section 526's legislative history, and over half a century of regulatory practice.

1. "Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights, one of which is the right to enlist the Customs Service's aid to bar foreign-made goods bearing that trademark." *K mart Corp.* v. *Cartier, Inc.*, No. 86-495 (Mar. 7, 1988), slip op. 8 (*K mart I*). The Treasury regulation (19 C.F.R. 133.21) provides that the statutory right to enlist the Customs Service's aid extends to those cases where the trademark owner seeks to exclude infringing goods (even if they are genuine under the law of the country they come from), but *not* to situations where the trademark owner seeks to exclude goods that it itself (or its affiliate or licensee) had put

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No. 86-594 (Dec. 14, 1987); *Gwaltney of Smithfield, Ltd.* v. *Chesapeake Bay Found., Inc.*, No. 86-473 (Dec. 1, 1987).

into commerce. See 19 C.F.R. 133.21(c)(1). COPIAT, by contrast, argues that Section 526 entitles the trademark owner to enlist the Customs Service's aid to bar importation both of infringing goods and of its own products after it has sold them abroad.[2]

The Treasury regulation reflects a settled principle of domestic trademark law: a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce. *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125, 128-130 (1947); *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368-369 (1924); *NEC Elec.* v. *Cal Circuit Abco*, 810 F.2d 1506, 1509-1510 (9th Cir. 1987), cert. denied, No. 87-125 (Oct. 5, 1987). " 'A trade mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of *another's product as his*. . . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth.' " *Champion Spark Plug Co.*, 331 U.S. at 129 (quoting Justice Holmes' opinion in *Prestonettes, Inc.*, 264 U.S. at 368) (emphasis added). For example, Ford and General Motors can prevent an unrelated upstart automobile maker from attaching their trademarks to his cars, but they have no right under trademark law to prevent one of their own customers from reselling his "second-hand Ford or Chevrolet car" (*Champion Spark Plug Co.*, 331 U.S. at 129).

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[2] The paradigm case, which has been the focus of the Treasury Department's regulations since 1936 (Art. 518(b) (J.A. 27-28)), is the case where the *same* company owns both U.S. and foreign marks and is seeking to exclude its own foreign-made goods. The Treasury Department has modified its regulation over the years to embrace various "common-control" situations as well, but these modifications are simply extensions of the basic logic that applies in the "same company" case. See pp. 8-10, *infra*.

COPIAT reads *Champion Spark Plug Co.* and *Prestonettes* as "cases concern[ing] the proper scope of a trademark owner's *remedy* for what was found * * * to be a trademark infringement resulting from the resale of goods the trademark owner put into commerce" (Supp. Br. 6 (emphasis in original)). But in each case, the claim of infringement was that *modified* trademarked goods (reconditioned sparkplugs and reformulated face powder) were being sold in circumstances where they could be mistaken for the trademark owner's original product. The express premise was that the simple resale of a trademarked product, with no substantial modification, would not infringe the trademark.[3] COPIAT's suggestion (Supp. Br. 5-6) that simple resale can infringe the mark—and that the only question is one of appropriate remedy—is an extraordinary departure from both settled trademark law and the common understanding of everyone who has ever bought and later resold an item bearing a brand name. See 3A R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (L. Altman 4th ed. 1983 & Supp. 1987).[4]

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[3] See *Champion Spark Plug Co.*, 331 U.S. at 129 ("we would not suppose that one could be enjoined from selling a car whose valves had been reground and whose piston rings had been replaced unless he removed the name Ford or Chevrolet"); *Prestonettes*, 264 U.S. at 369 ("If a man bought a barrel of a certain flour, or a demijohn of Old Crow whiskey, he certainly could sell the flour in smaller packages or in former days could have sold the whiskey in bottles, and tell what it was, if he stated that he did the dividing up or the bottling."); see also *Coty* v. *Prestonettes, Inc.*, 285 F. 501, 508 (2d Cir. 1922) ("There is no doubt, of course, that the defendant, after purchasing L'Origan face powders and perfumes from the complainant, was entitled to sell them in the original packages.").

[4] COPIAT concedes (Supp. Br. 6) *Callmann*'s statement that "resale or advertising for sale of the genuine plaintiff's article in its

The Treasury regulation interprets Section 526's trademark protection in light of the familiar trademark principle underlying *Champion Spark Plug Co.* and *Prestonettes*. As the Commissioner of Customs explained in 1951 (J.A. 53):

> [I]f the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.

To continue with the earlier example, General Motors can obtain the Customs Service's aid in excluding a "Chevrolet" made abroad by someone else (even if the stranger has

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original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement" (3A R. Callmann, *supra*, § 21.13, at 62 (footnote omitted)). But COPIAT suggests (Supp. Br. 6) that the commentator takes a different view concerning transnational resales "at a different page" of his treatise. In fact, the commentator simply recognizes what this case demonstrates; namely that "different legal theories compete in this area" (3A R. Callmann, *supra*, § 21.17, at 75). The commentator goes on to explain that the theory that a trademark owner exhausts his rights upon sale supports the legitimacy of parallel imports "because a seller should not be able to control what he has aiready sold" (*id.* at 76). He further observes that the "principle of 'trade identity' suggests that the importer should always win because the ultimate source of the goods is the same, regardless of who owns the mark domestically" (*ibid.*). He also states that the "principle of 'territoriality' " would support the contrary view (*ibid.*), but as we explained in our reply brief (at 8), that principle does not go that far.

somehow acquired the right to use that name in the country of manufacture) but General Motors may not ask the Customs Service to bar overseas purchasers of General Motors' own Chevrolets from bringing their cars into the United States.[5] This interpretation of Section 526 does not, of course, mean that a manufacturer is powerless to control resales of its trademarked products: General Motors and Nikon are free if they wish to impose various contractual restrictions, or to put different labels on products they wish to aim at different markets. They simply are not entitled to the Customs Service's assistance in segmenting the international marketplace.

2. The context in which Section 526 was enacted also provides compelling support for the Treasury interpretation. As COPIAT concedes (Br. 24), Section 526 was Congress's response to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), rev'd, 260 U.S. 689 (1923). See U.S. Br. 14-25. The Second Circuit had held that an American company that had purchased a trademark and product distribution rights from an unrelated French manufacturer could not invoke its trademark to exclude the French manufacturer's goods, reasoning (275 F. at 543) that a trademark simply demonstrates "the origin of the goods they mark" and that since the imported goods truly came from the French manufacturer, the American trademark owner could not object to them. See U.S. Br. 15-16. This Court subsequently reversed that decision, holding that the imported

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[5] *Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931), which concerned an imported automobile, did not involve the issue now before the Court. The question there was whether the term "merchandise" applies to goods imported for personal use; it does not appear from the opinion that the U.S. and foreign trademark owners were the same or related persons. See *K mart I* Tr. Oral Arg. 32, 38.

product infringed the American company's trademark because that mark "indicates in law, and, it is found, by public understanding, that the goods come from [the American company] although not made by it" (260 U.S. at 692). But before this Court acted, Congress enacted Section 526 for the specific purpose "of protecting the property rights of American citizens who have purchased trademarks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)).[6]

The sponsors repeatedly emphasized during the ten-minute debate on this "midnight amendment" (62 Cong. Rec. 11602 (1922)) that this was the only purpose of this section. See U.S. Br. 17-25. Section 27 of the Trademark Act of 1905, ch. 592, 33 Stat. 730, already protected the U.S. trademark owner from any "simulation" of his mark. As Judge Learned Hand explained shortly thereafter, Section 526 "was intended only to supply the casus omissus, supposed to exist in section 27" as a result of the Second Circuit's *Katzel* decision—*i.e.*, to deal with the case of goods that bear trademarks that infringe in this country but are lawful in the country of origin. *Coty, Inc.* v. *Le Blume Import Co.*, 292 F. 264, 268-269 (S.D.N.Y. 1923). There is no evidence that Congress intended, nor any reason why Congress would have wanted, to break with existing trademark principles and require the Customs Service to assist foreign or American manufacturers in keeping their own goods out of the U.S. market. See U.S. Br. 17-25; U.S. Reply Br. 9-11.

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[6] In the *Katzel* case, the goods sold in this country by the U.S. trademark owner had in fact been manufactured by the same French company and sold to the U.S. trademark owner. That fact, however, has no significance: if the U.S. company, after purchasing the American trademark, had manufactured the face powder itself in this country and had sought (as in the *Katzel* case) to exclude the foreign

COPIAT has responded to the 1922 legislative debate primarily by evading it. In its previous brief, COPIAT suggested (Br. 28-29) that this Court should disbelieve the sponsors' comments on the limited scope of Section 526 because they actually had a hidden goal—one that cannot be detected from the legislative record—to achieve much broader aims. In its latest brief, COPIAT avoids the 1922 debate completely, and instead draws dubious inferences (Supp. Br. 4) from a 1929 debate concerning an amendment to Section 526 that was never enacted. The 1922 debate, which led to the enactment of the language at issue, is obviously the relevant source for determining congressional intent. And that debate indicates quite convincingly that Congress did not expect or intend that Section 526 would lead to the result that COPIAT now urges 66 years later. See U.S. Br. 17-25.

3. COPIAT's contention (Supp. Br. 9) that the Treasury Department's interpretation of Section 526 has been "inconsistent" and "belated" is both inaccurate and ironic. It is inaccurate because the Treasury Department has consistently maintained for over 50 years that a trademark owner cannot invoke Section 526 to exclude its own goods. The Treasury Department formally recognized this principle in 1936, through a regulation specifically providing that the Section 526 exclusion is not available if the foreign and U.S. trademarks "are owned by the same person, partnership, association, or corporation" (Art. 518(b) (J.A. 28)).[7] We are aware of no instance (and COPIAT has

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manufacturer's powder, the Second Circuit, this Court, and Congress would all, so far as appears, have reacted exactly as they did. See *K mart I* Tr. Oral Arg. 7-8.

[7] COPIAT argues that this regulation "related only to what is now Section 42 of the Lanham Act" (Supp. Br. 10 n.9). The regulation, however, specifically cited Section 526 (J.A. 27) and the Treasury

pointed to none), prior to the 1936 regulation, where the Treasury Department acted inconsistently with that principle. And since 1936, the Treasury Department has *always* followed that principle. The question on which Treasury's approach has varied is the extent to which affiliated or related companies are to be treated as the "same person" (U.S. Reply Br. 16 n.15). This is not a simple question, and in the past half century—which has witnessed dramatic changes in international trade and business practices[8]—the Treasury Department has made four changes in its regulation to adjust its approach to the treatment of multicorporate multinational enterprises (*ibid.*). These occasional changes in the precise definition of the boundary do not support COPIAT's contention that no boundary at all may be drawn between infringing goods and the trademark owner's own goods.[9]

Department has always maintained that the regulation was meant to implement Section 526. The Treasury Department's interpretation of its own regulation in these circumstances is, of course, controlling. *United States* v. *Larionoff*, 431 U.S. 864, 872 (1977). And if there were any doubts on this score, they were eliminated in § 11.14(a) and (b) of the 1943 revision (J.A. 39), which again cites Section 526, again adverts to the problem of trademarks that are genuine in a foreign country, and again denies protection in the "same company" situation. See also § 11.14 of the 1947 revision (J.A. 45-46).

[8] See, *e.g.*, Hadari, *The Structure of the Private Multinational Enterprise*, 71 Mich. L. Rev. 729, 733-743 (1973).

[9] COPIAT's reliance (Supp. Br. 11 & n.10) on the *Guerlain* litigation (*United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), vacated and remanded, 358 U.S. 915 (1958), dismissed, 172 F. Supp. 107 (S.D.N.Y. 1959)) continues to be misplaced. See U.S. Br. 39-40 n.48; U.S. Reply Br. 17 n.16. COPIAT cites the district court finding that Parfums Corday, Inc. (which was but one of the defendants in the case) closely controlled a French manufacturing affiliate and infers that the Customs Service must have intended to give that company the benefit of Section 526. As a customs law specialist ad-

COPIAT's characterization of the Treasury Department's interpretation as "belated" is ironic given the short history of its own interpretation. While the Treasury Department's basic interpretation has been in place for 50 years, and the very regulation at issue has been in place for 16 years, COPIAT's interpretation began with this lawsuit. Neither COPIAT nor its members participated in the 1972 rulemaking. See J.A. 75-76. Indeed, it is fair to say that COPIAT has pursued this suit precisely because it has been unable to achieve the result it seeks through legislation. U.S. Br. 5, 44-45. COPIAT's debatable and unproven policy arguments (Supp. Br. 7-9) provide no ground for jettisoning the Treasury Department's longstanding and reasonable interpretation of Section 526. This is particularly true given the substantial reliance interests that have been built upon this regulation. See U.S. Br. 4-5, 43-45; U.S. Reply Br. 18-19.[10]

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dressing *Guerlain* pointed out nineteen years ago, the Customs Service "had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information." Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trademark Rep. 301, 307 (1969). Thus, the Customs Service would not have known of Parfums Corday's affiliate if that company had registered for Section 526 protection prior to 1953, or had otherwise failed to provide the agency with that information.

[10] COPIAT's claims of hardship to its members (Supp. Br. 8-9) are difficult to take seriously. For example, COPIAT despairs (*id.* at 8) that the Customs Service regulation has "victim[ized], in an especially vivid way" two of its members, Nikon, Inc. and E. Leitz, Inc. Prior to 1981, the foreign manufacturers of Nikon and Leica cameras selected these two companies as independent U.S. distributors for their products; accordingly, these U.S. companies could invoke the Section 526 exclusion. In 1981, however, the respective foreign manufacturers

4. The question here, at bottom, is whether the Treasury regulation is a "reasonable agency interpretation" of Section 526. *K mart Corp.* v. *Cartier, Inc.*, No. 86-495 (Mar. 7, 1988), slip op. 1. As we have previously explained (U.S. Br. 11-14; U.S. Reply Br. 2-4), the regulation is consistent with "plain language" principles. It applies the words of the statute quite straightforwardly to bar importation in the class of cases with which Congress was explicitly concerned but leaves unaffected a quite different class of cases that Treasury has determined, based on the legislative context, Congress did not intend to reach. This result is neither unfamiliar nor contrary to established principles of statutory construction; quite to the contrary, it focuses on what Congress meant by the words it used. This Court has frequently declined to interpret a statute as reaching every case its words might literally cover. The most recent example is *United States* v. *Wells Fargo Bank*, No. 86-1521 (Mar. 23, 1988), where the Court held that a 1937 law exempting certain project notes "from all taxation now or hereafter imposed by the United States" (42 U.S.C.

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acquired the companies and, in accordance with the Treasury Department regulation, the Customs Service terminated the distributors' right to the exclusion. Plainly, neither the manufacturers nor the distributors are entitled to much sympathy as a result of that consequence. The foreign manufacturers, who were certainly aware of the Treasury Department regulation, made a business decision to acquire their distributors, notwithstanding the distributors' loss of the Section 526 exemption. Furthermore, those manufacturers, who can control the worldwide distribution of their products, have ample means to protect their U.S. distributors from parallel imports—through, for example, labelling or stricter control over foreign distributors—if that were what they truly desired. Thus, if Nikon, Inc. and E. Leitz, Inc., are "victims" it is at the behest of their parents, with whom they share " 'a unity of purpose or a common design' " (*Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752, 771 (1984) (citation omitted)).

1437i(b)) did not provide an exemption from federal estate taxation. There are numerous other examples.[11]

The Treasury Department's interpretation of Section 526 is consistent with the statutory language and, unlike COPIAT's interpretation, is consistent with settled principles of trademark law and the specific—and clearly enuciated—goals of its sponsors. These factors are as much a part of the legislative context, from which a court must determine what Congress meant by the words it used, as a conflicting statute (see *K mart I* Tr. Oral Arg. 9) or the historical understandings that motivated this Court's decision in *Wells Fargo Bank*. Treasury's sensible and longstanding interpretation, which has generated far-reaching commercial expectations for a broad class of retailers and consumers, is entitled to deference from this Court.

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[11] See, *e.g.*, *United States* v. *American Trucking Ass'ns*, 310 U.S. 534, 543 (1940) (term "employees" of motor carriers, as used in Motor Carrier Act, refers only to employees in safety-related jobs and not to all employees: "even when the plain meaning did not produce absurd results but merely an unreasonable one • • • this Court has followed [the legislative] purpose rather than the literal words"); *California Federal Savings & Loan Ass'n* v. *Guerra*, No. 85- 494 (Jan. 13, 1987) (holding that a statute providing that pregnant women "shall be treated the *same* [as other persons] for all employment-related purposes" (42 U.S.C. 2000e(k) (emphasis added)) does not forbid special leave and reinstatement allowances); *O'Connor* v. *United States*, No. 85-558 (Nov. 4, 1986) (holding that a treaty exempting Panama Canal Commission employees from "*any* taxes • • • on income received as a result of their work for the Commission" (slip op. 2 (emphasis added)) does not exempt them from U.S. income taxation); other examples cited at U.S. Br. 12; U.S. Reply Br. 3. Neither these examples nor the present case requires "inserting • • • words into the statute" (COPIAT Supp. Br. 3); Treasury sought merely to give the words that are there the meaning they were intended to have. It is no more difficult to read the statutory phrase "bears a trademark" as referring, in context, to a mark not affixed by the very person that now seeks to exclude the goods, than to read any "no entry" provision as implictly excepting authorized persons.

For the foregoing reasons, and the reasons set forth in our previous briefs, the judgment of the court of appeals should be reversed.

Respectfully submitted.

CHARLES FRIED
Solicitor General

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APR 13 1988

Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

K MART CORPORATION,
Petitioner,
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR PETITIONER K MART CORPORATION ON REARGUMENT

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MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

Petitioner K mart Corporation ("K mart") hereby moves to file, more than ten days in advance of the April 26, 1988 reargument of this case on the merits, the accompanying supplemental brief. In accordance with Rule 35.5, K mart's supplemental brief deals with late authorities, recent legislative developments, the Respondents' April 4, 1988 supplemental brief and other matters which have intervened since September 22, 1987, when K mart filed its reply brief.

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SUPPLEMENTAL BRIEF FOR PETITIONER K MART CORPORATION ON REARGUMENT

Petitioner K mart Corporation ("K mart") submits the following supplemental brief dealing with late authorities, recent legislative developments, the Respondents' April 4, 1988 supplemental brief [1] and other matters which have intervened since September 22, 1987, when K mart filed its reply brief.

ARGUMENT

Respondents continue to argue, now based on "new" authority, that the Court should disregard both the legislative purpose behind Section 526, as expressed in its legislative history, and public policy, as expressed most particularly in the trademark and antitrust laws, in judging whether the Customs Service regulation is valid. No recent authority supports Respondents' position that this Court should overturn a regulation which Congress has repeatedly ratified and upon which American distributors, retailers and consumers have relied for some fifty years. As the Court recognized in its March 7, 1988 decision on jurisdiction, this is an issue with an immediate and substantial effect on the nation's economy. The effect will be decidedly adverse if Respondents succeed in banning parallel imports.

I. Recent Decisions

The cases on which Respondents newly rely do not support their position. Neither *Gwaltney of Smithfield, Ltd. v. Chesapeake Bay Foundation, Inc.*, 108 S. Ct. 376 (1987), nor *ETSI Pipeline Project v. Missouri*, 108 S. Ct. 805 (1988), deal with an agency's interpretation and enforcement of a statute or a fifty year history of agency

[1] K mart notes that much of Respondents' supplemental brief is in the nature of a reply brief devoted to repetition of the arguments in Respondents' May 7, 1987 brief, rather than a supplemental brief as contemplated by Rule 35.5.

and industry reliance on a regulation.[2] However, in both cases, the Court undertook a careful study of legislative history, as well as a reading of the bare statutory words.

Thus, in *ETSI Pipeline*, the Court turned to the original House version of the legislation to determine that the Secretary of the Interior had no power to take the challenged action. The Court noted the Secretary himself had testified against the regulatory power and urged adoption of a different statutory scheme. 108 S. Ct. at 814. Similarly in *Gwaltney*, the Court used legislative history to support its reading of the act in question. 108 S. Ct. at 383-384.

If anything, the Court's resort in *Gwaltney* and *ETSI Pipeline* to common sense and the Court's extensive examination of legislative history—the very sources Respondents urge the Court not to ignore—comport with the approach which Petitioners have advocated. Section 526 was passed to correct the perceived unjust result in *Katzel*.[3] It is silent or ambiguous on the specific issue of importations by related multinational enterprises.[4] It was

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[2] Likewise, *Bethesda Hospital Ass'n v. Bowen*, 56 U.S.L.W. 4279 (U.S. Sup. Ct. April 5, 1988), did not involve a conflict between a statute and an agency regulation. In construing the statute, however, the Court consulted "the language and design of the statute as a whole," 56 U.S.L.W. at 4281, just as here an examination of *Katzel* and the trademark considerations which underlie Section 526 compels approval of the Customs Service approach to parallel imports.

[3] *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

[4] Respondents now contend, contrary to the evidence, that Section 526 was quite carefully drafted and the subject of "lengthy consideration." In fact, it was a "midnight amendment" the debate on which is found on a mere three pages of the Congressional Record. 62 Cong. Rec. S 11,602-11,605 (Aug. 19, 1922). Contrary to Respondents' contention that the provision was subject to "quite lengthy" consideration, its drafters never considered precisely what classes of trademark owners would be protected until the floor debate. The debate regarding the impact of Section 526 on foreign

not meant to aid foreign companies at the expense of American consumers. In fact, not even Respondents have the temerity to suggest that Congress had any such intention in 1930 or was then faced with the situation of foreign companies establishing American subsidiaries to insulate their trademarked goods from price competition.

The decision in *NLRB v. United Food & Commercial Workers Union*, 108 S. Ct. 413 (1987), supports Petitioners and is more on point. Here, the Court deferred to an agency interpretation which was, like the Customs Service regulation, "rational and consistent with the statute." 108 S. Ct. at 421. Moreover, the Court recognized that the agency had applied its statutory interpretation consistently, even though the regulation in question, like the Customs Service regulation at issue here, had been amended several times over a thirty year span.[5] 108 S. Ct. at 421 n. 20.

The Customs Service regulation meets all these criteria: (a) it is rational because it deftly melds the tariff, trademark and antitrust laws; (b) it is consistent with the statute because Congress did not purport to deal expressly with the situation of trademark ownership by related companies in a multinational enterprise; and (c) it is self-consistent because none of the Customs Service regulations on parallel imports over the past 50 years conflict with the present regulation as it was adopted in

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companies is brief and very confused, as even the court of appeals below acknowledged. Hasty or not, Congress had no intention of allowing foreign companies, such as comprise the bulk of COPIAT's membership, to control the United States market by registering their trademarks with the Customs Service.

[5] Respondents repeatedly suggest that the parallel import regulation is defective because the Customs Service did not always publish lengthy justifications for it and did not cite precisely the same rationale each time it was reenacted. There is certainly no indication in *United Food* that the Court held the NLRB to such an unrealistic standard over a thirty year period.

1972.[6] Moreover, the Customs Service regulation has been ratified by Congress and is decades older than the NLRB interpretation to which the Court deferred in *United Food.*

Thus, recent decisions reemphasize the need to review the legislative history of Section 526 to determine the deference to be accorded the Customs Service regulation. When such a review is conducted, it becomes clear that Congress never intended the drastic interpretation of Section 526 which Respondents now suggest. If anything, Congress in 1922 made it clear that the statute was to protect the rights of American citizens against the perceived injustice in *Katzel.* An interpretation which would have the Customs Service enforce the inflated retail prices set by foreign multinational enterprises, to the detriment of American consumers, cannot be squared with this legislative intent.[7]

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[6] Only Respondents find inconsistency in the Customs Service regulations promulgated from 1923 to 1972. While the earliest regulations merely recited the statutory language and later versions varied somewhat in their wording from decade to decade, Customs law experts and Congressional reports have found no significant inconsistency in the Customs Service recognition and enforcement of the exceptions now found in 19 C.F.R. § 133.21. H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977) (Customs Service consistent for at least twenty years); J. Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trademark Rep. 301, 307 (1969) (Customs Service always recognized related company exception).

[7] It is certainly not necessary, as Respondents suggest, to "insert words" into Section 526 to reach such a conclusion. Since the bare statutory words do not resolve the issue of whether a foreign corporation can use its trademark to isolate the United States market from price competition, it is proper for the Court to consult legislative history and for the agency to conform its regulatory scheme to the public interest.

II. Legislative Developments

Although Respondents would have the Court ignore the many instances where Congress approved of the Customs Service regulations, they take great satisfaction in noting that the Senate Finance Committee declined to codify the regulation by amendment to the very controversial international trade bill now pending in Congress.[8] In fact, however, Congress has adopted neither legislation to codify the regulation[9] nor legislation to codify Respondents' position.[10] Congressional inaction on these proposals at most reflects Congressional reluctance to act on this matter while it is pending before the Court.[11]

Moreover, when the matter has reached the floor of Congress, as it did in the case of alcoholic beverages, attempts to curtail parallel imports have been defeated overwhelmingly in the interest of protecting the American consumer from gross overcharges at the hands of foreign manufacturers.[12]

III. The Trademark Laws

Respondents continue to ignore the trademark laws in their discussion of Section 526. This is surprising inasmuch as the courts, Congress and the Customs Service have historically regarded Section 526 as, in large part,

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[8] H.R. 3, 100th Cong. 1st Sess. (1987).

[9] S. 1097, 100th Cong. 1st Sess., 133 Cong. Rec. S 5,524 (daily ed. Apr. 27, 1987).

[10] S. 1671, 100th Cong. 1st Sess., 133 Cong. Rec. S 11,893 (daily ed. Sept. 9, 1987).

[11] Congress has repeatedly stated as much. *See* S. Rep. No. 470, 98th Cong., 2d Sess. 7-8 (1984); S. Rep. No. 71, 100th Cong., 1st Sess. 130 (1987); H.R. Rep. No. 40, 100th Cong., 1st Sess. 158 (1987).

[12] 132 Cong. Rec. H 11,080-11,085 (daily ed. Oct. 15, 1986).

a trademark provision.[13] This is not surprising, however, in light of the rather uniform precedent which holds that parallel imports do not infringe trademark rights because no "copying or simulating" is involved.[14]

This was the view expressed in *NEC Electronics, Inc. v. CAL Circuit Abco, Inc.*, 810 F.2d 1506 (9th Cir. 1987), *cert. denied*, 108 S. Ct. 152 (1987), where the Ninth Circuit recognized the logic of the Customs Service regulation in the context of the Lanham Act:

> This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.

810 F.2d at 1511.

Although Respondents have again asserted that the Customs Service regulation interferes with "trademark territoriality," they offer no authority for the concept. As set forth in K mart's principal brief, neither Section 42 of the Lanham Act nor Section 526 of the Tariff Act nor the *Katzel* decision can properly be cited for supporting the concept of trademark territoriality. *See NEC Electronics*, 810 F.2d at 1510 n.4.

Finally, if Congress had intended the kind of sweeping trademark protection demanded by Respondents, it could have included such a provision in the Lanham Act—but instead, Congress ratified the Customs Service regulation in 1946. Likewise, Congress could have codified Respondents' position when it passed the Trademark Counter-

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[13] When Congress passed the Lanham Act in 1946, it expressly ratified the 1936 Customs Service regulation on parallel imports. Trademarks: Hearings on H.R. 82 before a Subcommittee of the Senate Committee on Patents, 78th Cong., 2d Sess. 86 (1944).

[14] Section 42 of the Lanham Act, 15 U.S.C. § 1124.

feiting Act of 1984 [15]—but instead, Congress expressly acknowledged the long-standing Customs Service policy toward parallel imports.[16]

IV. The Antitrust Laws

Respondents continue to regard the antitrust laws as irrelevant to their anticompetitive marketing arrangements. For example, they choose to ignore K mart's oft repeated position that a trademark does not give its owner the power to restrict distribution and fix resale prices of products bearing that trademark.[17] *United States v. Sealy, Inc.*, 388 U.S. 350 (1967); *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); *Sunbeam Corp. v. Wentling*, 192 F.2d 7, 9 (3d Cir. 1951).

Respondents also laud the virtues of interbrand competition as "the true source of consumer benefits" and denounce the vice of "free riding." However, consumers, as they have expressed themselves to the Customs Service, Congress and this Court, do not agree that they are benefitted by the Respondents' marketing arrangements. As amici, Consumers Union and the attorneys general of several states have emphatically argued that parallel imports benefit the consumer. Likewise Consumers Union, Public Citizen and Consumer Federation of America have supported access to parallel imports in general and the

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[15] Pub. L. No. 98-473, Chap. XV, 98 Stat. 2178.

[16] S. Rep. No. 526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629.

[17] For Respondents to characterize this as a "late-blooming idea" is false. K mart raised this point before the district court, the court of appeals and this Court. *See* K mart's petition for certiorari at p. 22 (Sept. 22, 1986); K mart's principal brief at pp. 41-42 (Feb. 21, 1987).

Customs Service regulation in particular; no consumer group has supported the COPIAT position.

Congress itself rejected the intellectual property "free riding" argument when it passed the Consumer Goods Pricing Act of 1975:

> Another justification for "fair trade" laws advanced by the manufacturers is that it protects their "good will" investment in their trademarks—namely, their advertising budgets. It is contended that the manufacturer's investment in promotion and advertising represents an asset—which would be destroyed if the price premium which was part of that "image" could be eliminated by intrabrand price competition at the retail level."
>
> * * * *
>
> The Committee was of the view that manufacturers should not be able to insulate their advertising budgets from the effects of intrabrand competition in this fashion, and that the marketplace should be allowed to judge the value of a "brand image" without the restraints imposed by resale price maintenance.

H.R. Rep. No. 341, 94th Cong., 1st Sess. 5 (1975).

The Federal Trade Commission study of parallel imports likewise found insufficient evidence of parallel imports contributing to "free rider or deception problems" and concluded that banning parallel imports would harm consumers "both in the short run and the long run." [18]

Respondents' renewed assertion that their corporate structures exempt them from antitrust liability is hardly credible. Throughout this litigation, COPIAT has revealed its membership selectively and reluctantly, under-

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[18] Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service (Oct. 17, 1986) at 15, 22.

standably choosing to disclose that one atypical member has some production facilities in the United States, rather than to reveal how the vast majority of its members may be "mere shells."

Respondents' lack of credibility on this point is demonstrated by their contention that the American distributors of Leica and Nikon cameras "have fallen victim, in an especially vivid way" to the Customs Service regulation when they were acquired by foreign trademark owners.[19] The only "harm" they suffered is intrabrand competition from genuine Leica and Nikon cameras which their corporate parents market much more cheaply abroad—"the inroads of gray-market products" about which Respondents complain. Respondents can make no showing, however, that these multinational enterprises, taken as a whole, suffer in the least by having more of their goods sold in the United States, albeit at lower prices.

Even if Respondents profess ignorance of the antitrust implications of stifling parallel imports, Respondents' European affiliates are not so naive. On January 23, 1988, the European Community Commission fined the German and British subsidiaries of Konica (Japan) for violating the Community's competition rules by attempting to prevent the parallel importation and sale of photographic film.[20]

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[19] Since these acquisitions occurred while the Customs Service regulation was in effect, the foreign parent companies must have determined that consolidating their operations would be more profitable than dealing through independent American distributors, despite competition from parallel imports.

[20] EC Commission Fines Konica Affiliates for Preventing Parallel Trade in Film, 54 Antitrust & Trade Reg. Rep. (BNA) 138 (Jan. 28, 1988).

CONCLUSION

Respondents have not advanced any new reason for the Court to overturn the Customs Service regulation of which Congress has been apprised and on which American consumers and a substantial domestic industry have relied for over five decades.

For these reasons and those set forth in K mart's February 21, 1987 and September 22, 1987 briefs, the judgment of the court of appeals should be reversed.

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April 13, 1988

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Nos. 86-495, 86-624, 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

K MART CORPORATION,
Petitioner
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

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MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

Petitioner, 47th Street Photo, Inc., moves this Court for leave to file the accompanying Supplemental Brief in advance of reargument on the merits. This brief re-

sponds to respondents' Supplemental Brief filed with this Court on April 4, 1988.

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SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

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1. *What Did Section 526 Mean in 1922?*

What was meant by a law enacted more than 65 years ago that gave an unusual "private right" [1] to bar importation of goods to "a corporation . . . created or organized within, the United States, and . . . domiciled in the United States"? COPIAT asserts that the "plain language" of that statute extended this singular "private right" even to a corporation chartered in the United States but wholly owned and totally controlled by a foreign corporation. If the law had been enacted in 1982, rather than 1922, there might be room to argue that by not explicitly excluding wholly-owned corporate subsidiaries of foreign corporations, Congress' "plain language" included them. But what is "plain" today was not "plain" 65 years ago.

At that time, layering of corporate ownership was in its infancy. In the early 1920's, this Court was still in the process of considering the legal consequences of a corporation's complete ownership of another corporation. A 1918 ruling said that if a corporation owned stock "for the purpose . . . of controlling a subsidiary company so that it may be used as a mere agency or instrumentality of the owning company or companies . . . the courts will not permit themselves to be blinded or deceived by mere forms of law, but, regardless of fictions, will deal with the substance of the transaction involved as if the corporate agency did not exist and as the justice of the case may require." *Chicago, Milwaukee, & St. Paul Ry. Co. v. Minneapolis Civic & Commerce Ass'n*, 247 U.S. 490, 501 (1918).

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[1] In its decision of March 7, 1988, in this case, the Court majority characterized the authority conferred by Section 526 of the Tariff Act of 1930 (originally enacted in 1922) as "a mechanism by which a private party might, at its own option, enlist the Government's aid in restricting the quantity of imports in order to enforce a private right." *K mart Corp. v. Cartier, Inc.*, Nos. 86-495, 86-624, 86-625, slip op. at 7-8 (March 7, 1988).

Other contemporaneous decisions similarly refused to grant substantive recognition to a corporation's wholly-owned subsidiary. In *Hart Steel Co. v. Railroad Supply Co.*, 244 U.S. 294, 298 (1917), a wholly-owned corporate subsidiary was held to be "a mere sales agent" of its corporate parent.[2] And in *Gulf Oil Corp. v. Lewellyn*, 248 U.S. 71 (1918), a corporate parent and its subsidiaries were treated as "a single enterprise." Justice Holmes expressed the then-current skepticism over these legal forms, which he brushed aside as merely "bookkeeping," when he said (248 U.S. at 72):

> It is true that the petitioner and its subsidiaries were distinct beings in contemplation of law, but the facts that they were related as parts of one enterprise, all owned by the petitioner, that the debts were all enterprise debts due to members, and that the dividends represent earnings that had been made in former years and that practically had been converted into capital, unite to convince us that the transaction should be regarded as bookkeeping rather than as "dividends declared and paid in the ordinary course by a corporation."

More than two decades later, this Court repeated the proposition that "where a holding company directly intervenes in the management of its subsidiaries so as to treat them as mere departments of its own enterprise, it is responsible for the obligations of those subsidiaries in-

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[2] The legislative history of Section 526 establishes, beyond any shadow of doubt, that Congress did not intend to give the statutory right of exclusion to an "agent" of a foreign trademark owner. Senator McCumber said (62 Cong. Rec. 11,605 (August 19, 1922)):

> The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.

In light of the cited Court decisions that treat a wholly-owned corporate subsidiary as an "agent" of the parent, Senator McCumber's remark may well have been designed to govern corporate subsidiaries.

curred or arising during its management." *Consolidated Rock Prods. Co. v. Du Bois*, 312 U.S. 510, 524 (1941). This was deemed fair because "[a] holding company which assumes to treat the properties of its subsidiaries as its own cannot take the benefits of direct management without the burdens." *Id.*

Should the 1922 Congress have explicitly excluded from Section 526 the case of a foreign "holding company" that owned the stock of a corporation "created or organized within the United States?" In light of then-prevalent attitudes towards such a corporate structure, it hardly seemed necessary. In any event, the failure of Congress to advert expressly to this particular technique of appointing a local "agent" does not reflect the "plain meaning" of the law in 1922.

This Court very recently considered the historical context of a later statute than Section 526 in giving the later law an application that actually conflicted with its "plain language." Although the Housing Act of 1937 exempted certain local obligations "from all taxation now or hereafter imposed by the United States," the Court unanimously held that such obligations were not exempt from estate taxes. *United States v. Wells Fargo Bank*, No. 86-1521 (March 23, 1988). The Court relied on a distinction between direct taxes and excise taxes which was "understood" before 1937. The meaning of a relayed 1973 statute was also discerned by examining the 1937 form of income taxation—then divided into "normal" taxes and "surtaxes." Slip op. at 5. It is clear, therefore, that the contemporaneous meaning of the statutory terms affects the "plain meaning" of a law.

2. *Who Should Enjoy the "Private Right" Conferred by Section 526?*

Both the language and the legislative history of the law make it unquestionably clear that Congress had no desire in 1922 or in 1930 to confer the new statutory

right on *foreign* corporations. Yet the effect of COPIAT's argument is to give a foreign manufacturer the power to limit importation of its own goods if it goes to the trouble of incorporating a United States subsidiary and assigns ownership of its trademark to the subsidiary. This flies in the face of the established principle "that the interposition of a corporation will not be allowed to defeat a legislative policy, whether that was the aim or only the result of the arrangement." *Anderson v. Abbott*, 321 U.S. 349, 362-363 (1944). As this Court observed in *Anderson v. Abbott*, the concern should be "with realities not forms." *Id.* COPIAT's proposed statutory reading would elevate form over substance by encouraging assignment of foreign-owned trademarks to newly created American corporations.

COPIAT argues that its members are not only American agents controlled by foreign parent corporations, but also American principals which are foreclosed from invoking the statutory right to exclude if their goods are manufactured abroad. This is a new mask that COPIAT has belatedly donned, because the primary issue presented by this case, as described by the court below, "typically arises when a foreign producer creates an American subsidiary that then registers the American trademark." *COPIAT v. United States*, 790 F.2d 903, 904 (D.C. Cir. 1986). The foreign parent company not only retains the power to dictate the price at which goods will be sold in the United States and to choose the retailers who will be permitted to sell those goods, but it can also structure intra-company transactions to shift its profits off-shore, thereby depriving the United States of tax revenues. *See, e.g., Olympus Corp. v. United States*, 627 F. Supp. 911, 913 (E.D.N.Y. 1985), *aff'd*, 729 F.2d 315 (2d Cir. 1986), *cert. pending*, No. 86-757.

The legal issue controls, as well, multinational entities with complex corporate structures that cannot be defined as principally American. In *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 418

(S.D. Fla. 1983), a district court found that the plaintiff, an "American corporation" that is also a named plaintiff in this case,

> is a cog or entity in what appears to be a single international enterprise operating through an amoeba-like structure . . . [which] either by reason of holding the Oscar de la Renta trademark or by way of license and/or contractual rights granted to it or one of its entities, holds the right to manufacture, distribute, promote, or otherwise utilize Oscar de la Renta fragrance products throughout the world.

There are, to be sure, foreign manufacturers who own corporate subsidiaries that are not mere shells. COPIAT cites Michelin Tire Corporation, that assertedly "operates five plants in the United States" where most of the tires distributed in this country are manufactured (COPIAT Supp. Br., p. 8). Tires manufactured in the United States are, of course, not subject to Section 526 at all. The law in question applies only to products manufactured outside the United States, and foreign corporations establishing production plants within the United States retain the same rights to control their own sales that American companies have.

COPIAT thinks it inequitable that Leica and Nikon products could, before 1981, be excluded under Section 526 by their independent American trademark owners but cannot now be excluded because the foreign manufacturers of those products acquired the American corporations that own the trademarks (COPIAT Supp. Br., pp. 8-9). But the acquisition of the American corporations by Leica and Nikon gave the parent foreign corporations the power to fix prices, select retailers, and allocate territories. It also gave the parent foreign companies the ability to establish artificial differences between the prices of their products in foreign markets and their prices in the United States. If COPIAT's position is sustained, the dominant foreign corporations can

now insulate their American markets from price competition in their own products from the European or Asian markets by exercising the "private right" to exclude conferred by Section 526.

Before 1981, the local distributors of Leica and Nikon products were wholly American, and it was sound policy to permit them to bar foreign-manufactured products bearing the same trademarks as theirs. The independent American distributors had expended American funds in advertising campaigns and had developed their own affiliations in the public's mind with the trademarked products. Moreover, they could independently set the prices at which their products would be sold. If the foreign manufacturers charged more than they charged to foreign distributors, presumably the independent U.S. distributors could buy abroad. For the same reasons as were stated by Justice Holmes in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), it was equitable to permit the independent American concerns to bar competition from identically trademarked authentic products produced abroad. A different situation was presented once the foreign manufacturer and the American distributor became, in essence, the same. After 1981, there was no reason to give the foreign parents the right to shield their American market from price competition they generated by selling the same products more cheaply elsewhere.

American corporations, such as Duracell, that choose to manufacture goods abroad through foreign corporations should also have no right to keep the products made abroad, once sold in foreign commerce, out of the United States. Congress was not intending in 1922 or 1930 to protect American manufacturers from price competition in their own goods if manufactured outside the United States. American manufacturers with foreign manufacturing affiliates are not the entities that the 1922 and 1930 Congresses sought to protect. Such manufacturers control the form and the price of the goods they choose

to sell abroad and in the United States. If they determine to charge disparate prices for the same product, they must endure the consequences of that choice—*i.e.*, intraband price competition.

3. *Has the Customs Service's Policy Been Long-Standing and Consistent?*

COPIAT claims that the Customs Service has been "belated" and "inconsistent" in its position on parallel imports. If there were any validity to this claim, COPIAT should be able to cite one articulation of the Customs Service's policy in 65 years in which it permitted a subsidiary of a foreign manufacturer to utilize Section 526 to exclude parallel imports. It cannot. Instead, COPIAT magnifies slight differences in basically similar regulations designed to express a consistent policy—*i.e.*, that an American trademark owner that shares common ownership with a foreign manufacturer cannot invoke Section 526.[3]

Congress has known Customs' policy throughout the period it has been in force. Congress was explicitly informed in 1944 that Customs regulations embodied such a policy when it considered and passed the Lanham Act. Congress also indicated its familiarity with the policy on subsequent occasions, and it was even discussed re-

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[3] COPIAT suggests that Customs could have more explicitly described in its 1936 regulation how foreign and domestic corporations could be under common control or ownership. It argues that such corporate interrelationships were known at a time when Congress passed complex New Deal corporate regulatory statutes. COPIAT Supp. Br., p. 10. But Customs could then—as now—have rationally concluded that it could not anticipate all ways in which foreign and domestic companies may act under common control. This is amply illustrated by the assertion made by one COPIAT member to the District Court that it "has no affiliation" with its foreign manufacturer when another district court has concluded that they are both part of "a single international enterprise." *See Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983).

cently during the Senate debate on the Prescription Drug Marketing Act of 1987, which deals with the reimportation of prescription drugs manufactured in the United States.[4]

4. *How Does COPIAT's Argument Affect Established Trademark Law?*

COPIAT asserts that its members' trademarks entitle them to exclusive "territorial" distribution rights in this country. If that were the law, any trademark owner—even a wholly foreign company that owned an American trademark—would have the right, apart from Section 526, to enjoin the sale of all goods bearing that trademark except for those that it imported. That is clearly not the law.

COPIAT dismisses this Court's leading trademark cases as merely dealing with "remedy." COPIAT Supp. Br., p. 5. One cannot read either *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947), or *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), however, and fail to conclude that once a trademark owner sells his product he may not thereafter control its resale price or distribution unless there has been deception as to the origin of the goods.[5]

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[4] On March 31, 1988, immediately prior to passage of the Act, Senators Chafee and Rudman expressed their uncontradicted understanding that the new law does not affect parallel imports. Senator Chafee said (134 Cong. Rec. S. 3684 (March 31, 1988)):

> I wish to clarify that this bill does not affect parallel imports or "gray market" goods . . . .
>
> The distribution of gray market goods by independent importers was [sic] long been legal in this country and in all the countries which are our major trading partners.

[5] COPIAT objects to the citation of 3A Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (Altman, 4th ed., 1983 and Supp. 1987) in our Opening Brief, asserting that a more relevant citation (*id.* § 21.17, at 74) is omitted. The allegedly omitted entry specifically rejects the "territoriality"

Trademarks cannot be used for anti-competitive purposes and cannot be used to establish resale prices unless there is a clear showing that the economic benefits to competition outweigh the disadvantages. *Continental TV, Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). Congress reaffirmed this policy choice when it passed the Consumer Goods Pricing Act of 1975, P.L. 94-145, 15 U.S.C. § 1, which repealed exemptions to the antitrust laws for state laws which "legalized price fixing by which the owner of a . . . trademarked article determines the price charged by the retail merchant." 117 Cong. Rec. S. 38,049 (Dec. 2, 1975).

COPIAT argues that parallel imports must be excluded under Section 526 because such goods "intended for other markets other than the United States are often not the same goods that United States consumers associate with the familiar trademark on them." COPIAT Supp. Br., p. 7. If so, the manufacturers of these dissimilar products are unlawfully abusing their trademarks, and their trademark rights are subject to forfeiture. A principal objective of the Lanham Act was to enable the public to rely on trademarks as indicators of uniform quality. Section 5 of the Lanham Act, 15 U.S.C. § 1055, was designed to insure that an American trademark registrant stand behind the uniform quality of its product. This applies not only to the products its produces, but also to products to which its "related companies" apply its mark. If it fails to maintain such "uniform

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theory when the foreign and domestic trademark owners are related (*id.* at 75-76) (emphasis in original):

> The concept of territoriality is a proper one for drawing boundaries between two *different* trademark proprietors who have developed independent goodwills in separate territories; but that does not necessarily mean that its influence should be extended to a case involving goods of common origin representing only one goodwill. A trademark has more than static existence created by its registration on a national basis; it also has the dynamism generated by international use.

quality," the mark will be held to have been abandoned. *Oberlin v. Marlin American Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979). *Accord, Huntington National Mattress Co. v. Celanese Corp. of America*, 201 F. Supp. 938, 945 (D. Md. 1962).

It is difficult to sympathize with manufacturers who deliberately produce inferior products for sale in foreign markets and willfully affix to those sub-quality products the same trademark that has been associated with superior goods in the United States. If the reputation of a superior-quality product is being exploited by a manufacturer's use of the same trademark on a low-grade product, the manufacturer cannot complain if his own marketing tactics confuse consumers. His remedy is to change his own practices, not to demand that the law protect his duplicity.

5. *Has There Been Reliance on Customs' Policy?*

Because the Customs Service has, for over fifty years, permitted parallel importation when the foreign and domestic trademark owners are the same, American purchasers of cameras, perfume, watches and other consumer goods have been paying prices for foreign-manufactured goods that are not totally out-of-line from what is charged elsewhere in the world. Many retailers sell some parallel imports and, for an entire segment of the retailing community, access to parallel imports is a significant element of their businesses. If a legal barrier to parallel importation is now erected at the border, higher prices will inevitably follow and significant changes will be wrought in an industry that has come to rely on duly promulgated regulations of long-standing.[6] 47th Street Photo, which has built its business by providing quality goods at discount prices, which invests hundreds of thousands of dollars annually in

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[6] The 1972 regulations that COPIAT is challenging were issued following notice of proposed rulemaking and public comment. 35 Fed. Reg. 19,269 (1970); 37 Fed. Reg. 20,677 (1972).

advertising and promotion of these goods, and which employs hundreds of employees, will be seriously affected, as will many other similarly situated retailers and importers.

COPIAT acknowledges that its members have opposed the regulations in issue at least since 1972, but that they took no action until well over a decade later. In these circumstances, the substantial reliance interests of 47th Street Photo, of other independent retailers, and of thousands of consumers should be honored. *N.A.A.C.P. v. N.A.A.C.P. Legal Defense and Educational Fund, Inc.*, 753 F.2d 131 (D.C. Cir.), *cert. denied*, 472 U.S. 1021 (1985).

CONCLUSION

For the foregoing reasons and those stated in our principal briefs, the judgment of the court of appeals should be reversed.

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